

Message Text

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ORIGIN EB-11

INFO OCT-01 NEA-10 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

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CAB - MR. HORNEMAN

NEA/INS - MR. BORN

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R 052330Z APR 74

FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI

INFO AMCONSUL BOMBAY

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E.O. 11652 N/A

TAGS: ETRN, IN

SUBJECT- CIVAIR - AVIATION FUEL

REF: NEW DELHI 4556

1. DEPT IS AWAITING WITH INTEREST EMBASSY REPORT ON THE RESULTS OF ITS REPRESENTATIONS TO THE GOI ON THE FUEL PROBLEM. WE HAVE NOTED EMBASSY'S CONCERN THAT IT MIGHT TAKE A MORE EXTREME POSITION THAN TWA. WE DOUBT THIS IS LIKELY. TWA'S POSITION, AS CONVEYED BY ITS PRESIDENT F.C. WISER IN A LETTER DATED MARCH 29 TO CHAIRMAN TIMM OF THE CAB IS AS FOLLOWS: QUOTE

I WISH TO ADVISE YOU OF THE EXTORTIONATE FUEL PRICES WE ARE BEING ASKED TO PAY IN BOMBAY. IF WE CANNOT OBTAIN RELIEF FROM THESE PRICES, IT WILL BE OUR INTENTION TO FILE IN THE NEAR FUTURE A PETITION SEEKING TEMPORARY AUTHORIZATION TO SUSPEND OUR SERVICE TO INDIA. BECAUSE OF THE KEY IMPORTANCE OF INDIA TO TWA'S ROUND-THE-WORLD
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ROUTE, SUSPENSION OF SERVICE TO THAT COUNTRY WILL REQUIRE

SUBSTANTIAL CURTAILMENT OR THE OUTRIGHT CESSATION OF OUR
ROUND-THE-WORLD SERVICE.

BACKGROUND FACTS FOLLOW:

1. ONE YEAR AGO, THE AVERAGE PRICE PER GALLON FOR THE
FUEL WE PURCHASED IN INDIA WAS EIGHTEEN AND ONE-HALF CENTS.

2. IN RECENT MONTHS, THERE HAVE BEEN INCREASES IN BOTH
THE FUEL PRICE PER SE, BUT EVEN MORE SUBSTANTIALLY, IN
THE TAXES LEVIED ON THE FUEL BY THE INDIAN GOVERNMENT AND
THE STATE OF MAHARASHTRA, IN WHICH BOMBAY IS LOCATED.
THE TOTAL PRICE TO US (INCLUDING TAX) IS NOW 1.16 DOLLARS
PER GALLON AT CURRENT EXCHANGE RATES -- OR MORE THAN A
500 PERCENT INCREASE IN ONE YEAR. IT IS OUR UNDERSTANDING
THAT, OF THE 1.16 DOLLARS, APPROXIMATELY 60 CENTS IS TAX.
WE WOULD ALSO NOTE THAT OUR SUPPLIER HAS RECENTLY BEEN
NATIONALIZED BY THE INDIAN GOVERNMENT, SO THAT IN EFFECT
THE NON-TAX PORTION OF THE PRICE IS ALSO A CHARGE THAT
IS BEING LEVIED INDIRECTLY BY THE GOVERNMENTAL AUTHORITIES
OF INDIA.

3. THIS PRICE FOR FUEL MAKES OPERATION THROUGH INDIA
TOTALLY NONVIABLE. NO AIRLINE, AND NO TYPE OF AIRCRAFT
COULD POSSIBLY OPERATE ECONOMICALLY WITH FUEL AT THIS
PRICE. AT 1.16 DOLLARS PER GALLON, THE COST FOR FUEL
ALONE WOULD REQUIRE 75 PASSENGERS PER FLIGHT ON A 707
JUST TO COVER THAT ONE ITEM -- WITHOUT ANY PROVISION FOR
ANY OTHER ELEMENT OF COST.

4. WE UNDERSTAND THAT PAN AMERICAN HAS NOT BEEN
SIGNIFICANTLY AFFECTED BECAUSE THEIR ROUTE STRUCTURE
ENABLES THEM TO FLY INTO DELHI FROM KARACHI. THE SHORT
LEG FROM KARACHI TO DELHI ENABLES PAN AMERICAN TO "TANKER"
FUEL INTO INDIA, SO THAT THEY DO NOT HAVE TO UPLIFT ANY
FUEL IN INDIA AT THESE EXORBITANT PRICES. TWA'S ROUTE
STRUCTURE DOES NOT GIVE US THAT SAME OPTION BECAUSE OF
THE LONG HAUL NATURE OF OUR EXISTING SERVICE AND BECAUSE
LANDING AND AIR SPACE RESTRICTIONS AFFECTING SERVICES TO
AND FROM TEL AVIV DO NOT PERMIT ALTERNATE ROUTING OF OUR
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FLIGHTS.

I AM SURE I DO NOT HAVE TO STRESS THE GREAT RELUCTANCE
WITH WHICH WE FACE THE POSSIBILITY OF DISCONTINUING OUR
ROUND-THE-WORLD ROUTE. AT THE SAME TIME, WE CANNOT
POSSIBLY CONTINUE TO OPERATE THE NEARLY 8,800 MILES WHICH
ARE INVOLVED IN OUR SERVICE INTO AND OUT OF BOMBAY, WHEN
WE NEED 75 PASSENGERS JUST TO PAY FOR FUEL ALONE.

WE FEEL THAT OUR GOVERNMENT SHOULD USE ALL POSSIBLE EFFORTS TO PERSUADE THE INDIAN GOVERNMENT TO DISCONTINUE THIS EXTORTIONATE PRICING PRACTICE.

IT CANNOT BE REALISTICALLY CLAIMED THAT THIS PRICING IS NON-DISCRIMINATORY. WE RECOGNIZE THAT AIR INDIA MAY BE PAYING THE SAME AMOUNT. BUT IF SO, THIS IS ONLY A BOOKKEEPING TRANSACTION SINCE AIR INDIA IS GOVERNMENT-OWNED, AS IS THE PETROLEUM INDUSTRY IN INDIA. CONSEQUENTLY, IN THE CASE OF AIR INDIA, ANY SUMS PAID FOR THIS FUEL BECOME A PAPER TRANSACTION -- MOVING FUNDS FROM ONE GOVERNMENTAL POCKET TO ANOTHER.

IF INDIA GETS AWAY WITH THIS CONFISCATORY TAXATION, AND FORCES TWA TO SUSPEND SERVICE IN INDIA, IT WILL BE AN OPEN INVITATION FOR OTHER COUNTRIES TO TAKE SIMILAR TYPE ACTIONS TO IMPROVE THEIR NATIONAL CARRIERS' COMPETITIVE POSITION.

UNDER THESE CIRCUMSTANCES, TO CLAIM THAT SUCH EXTORTIONATE PRICING IS NON-DISCRIMINATORY WOULD BE PLACING FORM ABOVE SUBSTANCE. WE FEEL THAT THE ONLY REDRESS AVAILABLE WOULD BE TO DEMONSTRATE THAT THE UNITED STATES WILL NOT STAND IDLY BY AND PERMIT ITS OWN CARRIERS TO BE FORCED TO DISCONTINUE SERVICE THROUGH ACTIONS OF THIS NATURE. END QUOTE.

2- WHILE EMBASSY WILL APPRECIATE THAT LETTER NOT LIKELY BE EFFECTIVE WITH GOI IT CONVEYS DEPTH OF TWA'S CONCERN, AND EMPHASISES URGENCY OF EARLY REMEDIAL ACTION BY GOI.
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